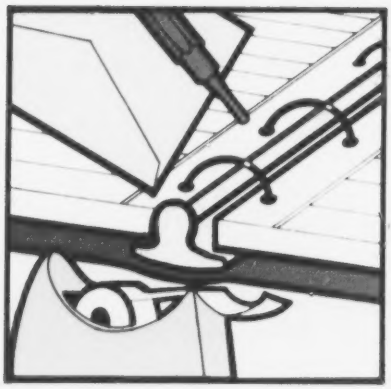


RECOGNIZING THE POTENTIAL

Attracted by high margins and strong turns, increasing numbers of retailers are recognizing the high profit potential of greeting cards, stationery products and school and home office supplies.

Despite several postal rate increases during the past 10 years, sales in the high margin greeting cards category have grown by an annual rate of more than 10%. Last year a total of seven billion cards were sold in the United States, according to industry figures.

Currently, there are greeting cards for just about every conceivable occasion. Americans are exchanging more greeting cards than ever before and all indications are that the trend will continue throughout the 80's.

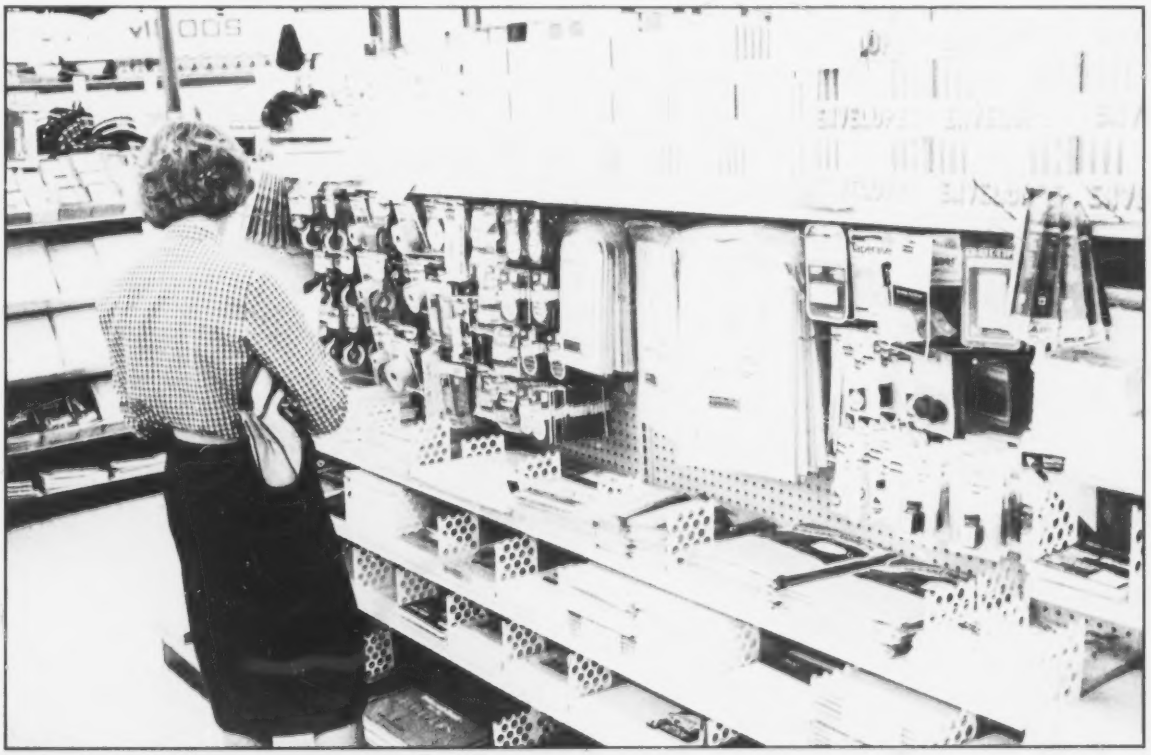
Sales in the multimillion dollar school supplies category also continue to perform very well. Among the items that are particularly strong sellers are wire-bound theme notebooks, pens, pencils, erasers, typing paper, filler paper, ring binders and organizers. On the average, school supplies carry margins of more than 40% and can turn at a rate of more than 10 times a year.

In addition to writing instruments and paper products, the market for tapes has also been growing at a rapid rate. Last year unit sales of tapes increased 9%. Approximately 20% of the sales came during the back-to-school period.

While there has been some concern on the part of retailers that the shrinking student population may signal a slowdown in the demand for school supplies, sales are remaining strong. Moreover, the mini-baby boom currently under way in the United States is expected to further fuel sales during the back-to-school periods in the years to come.

America's current preoccupation with strengthening the nation's educational system should also continue to have a favorable impact on the consumption of school supplies. And growing enrollments in night schools and the increasing numbers of individuals returning to colleges to receive additional graduate and post graduate training virtually insures a steady stream of school supply users.

Perhaps the most exciting new area of the stationery category is the home office supply segment.



RECOGNIZING THE POTENTIAL

While office supply products are by no means a new industry, mass merchandisers have become a major force in the industry. They are providing traditional stationery stores with stiff competition. At stake is the multibillion dollar market that is expanding at an inflation adjusted rate of more than 12% a year, according to the National Office Products Association.

Considering the size of the market it's not difficult to understand why retailers have targeted the home office market as one of the big growth areas for the 80's. The Federal Bureau of Labor Statistics estimates that there are 50 million white collar workers in the United States today. And each year the number of white collar workers increases by 2½%.

What makes the home office market even more appealing to retailers is the fact that many of these white collar workers are employed in small businesses. It is this small business market, which according to Government definitions represents 75% of all American business, that mass merchants are attempting to reach. Many of these businesses are within easy reach of mass merchandise outlets in the suburbs.

As more and more retailers have recognized the opportunities in greeting cards, stationery and home office supplies, there has been a corresponding flurry of activity to improve, expand and promote these growing categories.

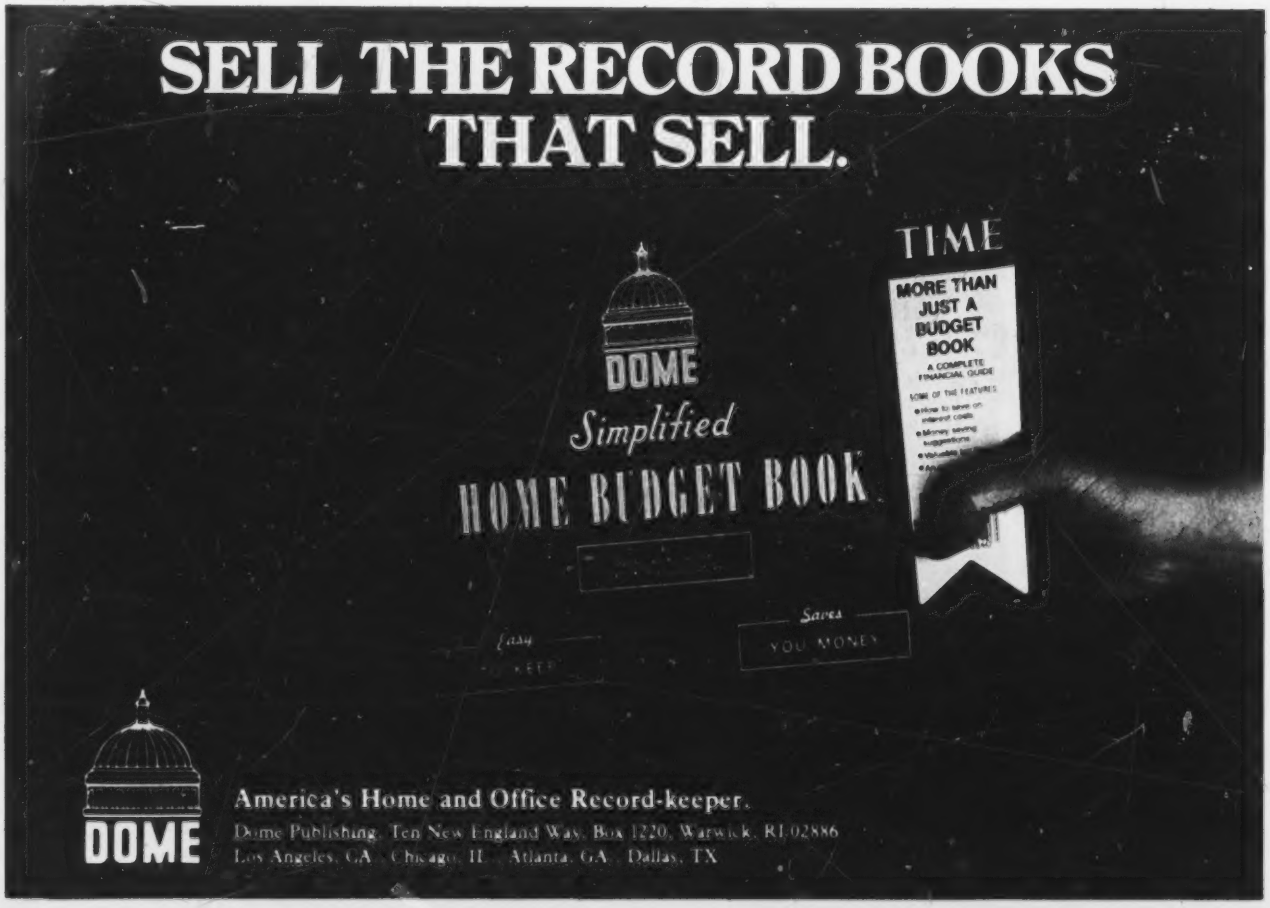
In the area of greeting cards, chains are becoming increasingly sophisticated in evaluating profitability and overall performance. Drug stores, always traditionally strong in greeting cards, are now allocating to the department an average of 30% more space in all new stores. Greeting card departments in existing drug stores have also been expanded. And general merchandisers, which in the past have been somewhat slower to recognize opportunities in greeting cards, are now adding as much as 50% more footage in new stores.

Similarly, retailers have been quick to capitalize on the potential for bigger profits in the school supply and home office categories.

More chains are upgrading school and office supply lines. Most sources estimate that drug and discount chains together have increased school supplies an average 6% to 8% during the past year. Increases in home office supply departments have been estimated at between 10% to 20%.

The increased shelf space is largely the result of newly introduced upgraded lines. Chains are carrying bigger assortments of high margin office supply products such as filing boxes, storage cabinets, desk accessories and office machine supplies. In addition, a number of retailers are now testing sections for computer supplies. Aside from delivering strong margins, volume in this relatively new area is expected to pick up dramatically as more people purchase home computers.

SELL THE RECORD BOOKS THAT SELL.



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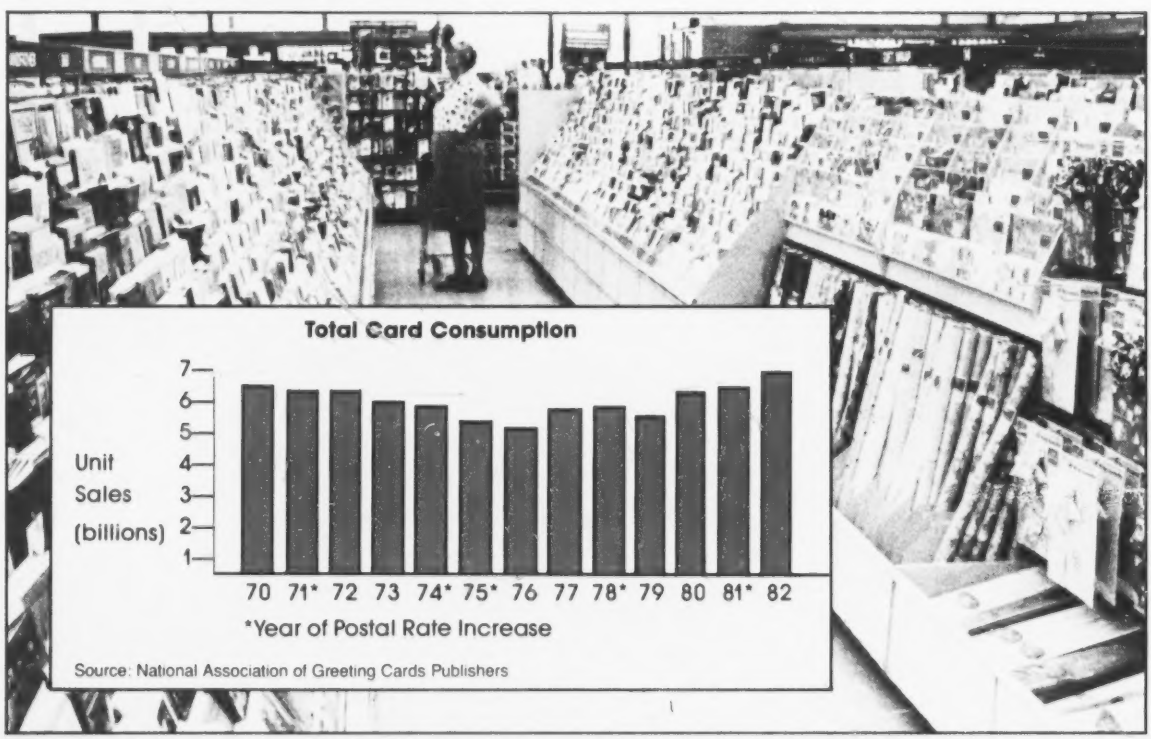
GREATER ASSORTMENTS BOOST PROFITS

Retailers are increasing the productivity of their greeting cards departments by carrying a bigger selection of cards.



While sales of greeting cards have been growing at an annual rate of more than 10%, many industry observers believe that new inventory control programs, introduced last year by several manufacturers will signal even larger sales increases this year. The reason: Retailers can carry a broader mix of cards that appeal to a larger audience.

Over the past several years, there has been widespread expansion in the greeting cards department by leading retailers. Drug chains, which represent the largest portion of the market, have actively remodeled their departments and in many cases relocated greeting card sections to front end locations. Eckerd Drug currently allocates nearly 40% more space to greeting cards in most remodeled and newly opened stores. Walgreens, Revco, SupeRx, Longs, Osco, Peoples and many other major drug and general merchandise chains are also aggressively pursuing this market.

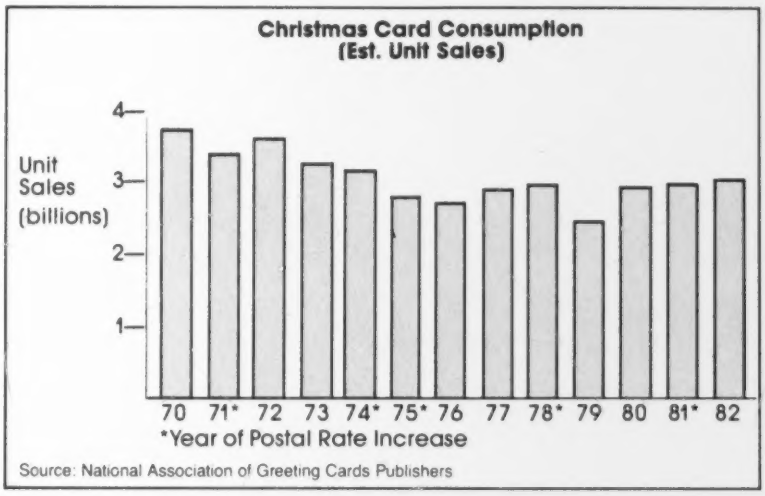
Greeting cards appeal so strongly to mass merchandisers primarily because they are excellent profit makers. On the average, greeting cards carry margins of between 40% and 50%. And because they appeal to both impulse and planned purchase buyers, a greeting cards department in a chain drug store or general merchandise outlet can turn anywhere from six to eight times a year.

The greeting card buyer is also the primary drug and general merchandise store shopper. Women, who tend to be primary consumers of greeting cards, are also the prime shoppers in drug, discount, variety and department stores. One manufacturer reported that during the Christmas season alone, women purchase a staggering 90% of all boxed cards. The median age for these shoppers is 42 for counter cards and 49 for boxed cards.

Currently, greeting cards account for 60% of all household mail. Last year seven billion greeting cards were exchanged. That averages out to a per capita consumption rate of 30 cards for every man, woman and child in the United States.

How much bigger can this enormous market get? Some industry

GREATER ASSORTMENTS BOOST PROFITS



sources project that by 1985 unit sales could reach 8.5 billion.

The growing popularity of greeting cards has also been attributed to the changing attitudes of society in general. The 1970's, frequently referred to as the "me decade," have given way to a decade in which people are more concerned with maintaining interpersonal contacts. Research has shown that the greeting card is one of the most effective ways to communicate on a personal level.

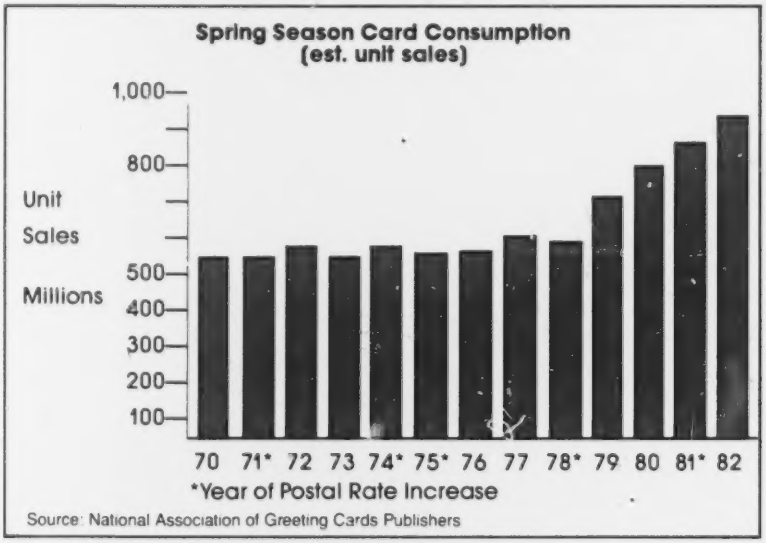
Sales of greeting cards have increased for another important reason. In the past 10 years, a number of small greeting card companies have been successful in reaching younger audiences with a variety of new lines of specialty cards. A number of major greeting card manufacturers have moved aggressively on this front and are introducing new exciting contemporary lines of their own.

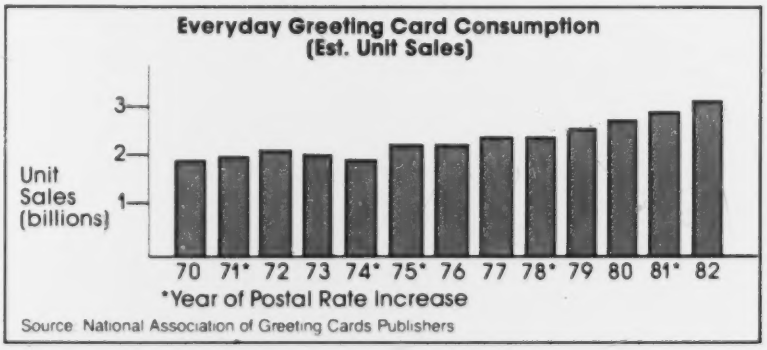
These types of cards, which frequently consist of one single humorous caption and may or may not be designed for any specific occasion, have been a huge success with the important 25 to 34 age market. Nearly 17% of the United States population falls within this age group.

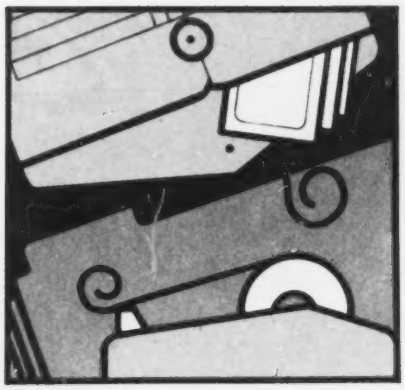
According to Business Trends Analysts, a market research firm, the 25-34 age group accounts for 23.5% of the total greeting card sales. The 35-44 age group generates 20% of the sales. The 45-54 age group represents 22% of the market, people between the ages of 55-64 account for 14% and those 65 and over produce 14.5% of the sales. The 25 and under market is currently the smallest with 6% of the sales.

While Christmas cards still account for the lion's share of the overall greeting card market, in recent years the everyday category has made substantial gains. Some of these cards are highly segmented such as those that are aimed at people in specific occupations. Others carry no message at all and allow the sender to make a more personal statement.

In recent years the licensed card category has also enjoyed considerable success. Besides having a strong identity with consumers, these cards also appeal to people of all age groups.




Everyday Greeting Card Consumption
(Est. Unit Sales)
Unit Sales (billions)
3
2
1
70 71* 72 73 74* 75* 76 77 78* 79 80 81* 82
*Year of Postal Rate Increase
Source: National Association of Greeting Cards Publishers



RETAILERS PREDICT LONG-TERM GROWTH

A new study reveals that chains plan to take advantage of the expanding opportunities in the home office supply category.

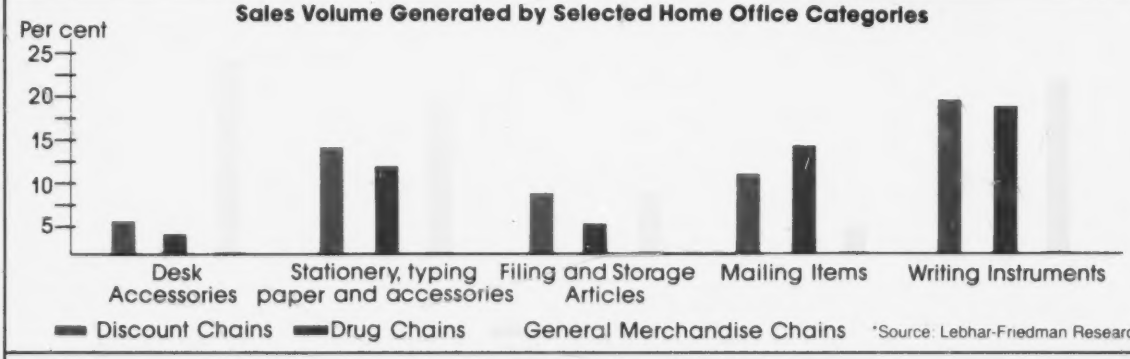
Drug and general merchandise chains have been quick to capitalize on the home office products market. They are upgrading their product lines in an attempt to reach the two main user groups—small businesses and the individual consumer.

A recent nationwide survey conducted by Lebhar-Friedman Research showed that home office buyers for the leading drug, discount and general merchandise chains are planning significant increases in a broad variety of categories including typing paper, typewriter accessories, filing and storage articles, desk accessories, personal planners, calendars and diaries and mailing items.

An overwhelming 71% of the buyers said they expect sales to increase in the home office category, particularly in paper products, typing paper and accessories, writing instruments and storage products.

Chains such as Venture, Target, Wal-Mart, SupeRx, Thrifty and Walgreens, which began expand-

Sales Volume Generated by Selected Home Office Categories



*Source: Lebhar-Friedman Research

ABOUT THE SURVEY

The findings from the Lebhar-Friedman survey were based on the responses from 86 home office supply buyers from the leading drug, discount, general merchandise and supermarket chains.

Qualified chains were selected from the top 100 in their respective classes of trade. The average chain represented in the survey operated 468 units and reported an annual dollar sales volume of $47 million.

RETAILERS PREDICT LONG-TERM GROWTH

ing and upgrading their departments several years ago are actively promoting them. "They are sending a message to consumers that they are the place to shop for stationery and home office products," one industry source says.

In the case of the California-based Thrifty Drugs, the expansion program is being conducted on a chainwide basis. In other instances, retailers are installing home office supply centers in test store locations that are frequently in close proximity to many small businesses.

But whether the departments are introduced chainwide or put in on a limited basis, retailers agree that the key to succeeding with home office departments is to make certain that the customer can find the product he occasionally purchases every time he walks into the store.

While there are certain times during the year such as tax season when demand for office supply products is greater than normal, home office products should not be considered seasonal. Indeed, according to L-F research findings, the only category carried "seasonally" with any degree of frequency is "personal planners, calendars and diaries." And even in that category a number of buyers indicated that they expected to carry those products on a more regular basis in the coming year.

Generally, more than 50% of the home office buyers rated the profit margins and overall growth rate of the home office category as either "excellent or very good." Buyers from discount and drug chains were particularly positive in their ratings.

Seventy-six per cent of the drug buyers and 57% of the discount store buyers rated margins in the home office category as "excellent or very good." In addition, more than three-quarters of the discount buyers said the growth rate for products in the category are also "very good to excellent."

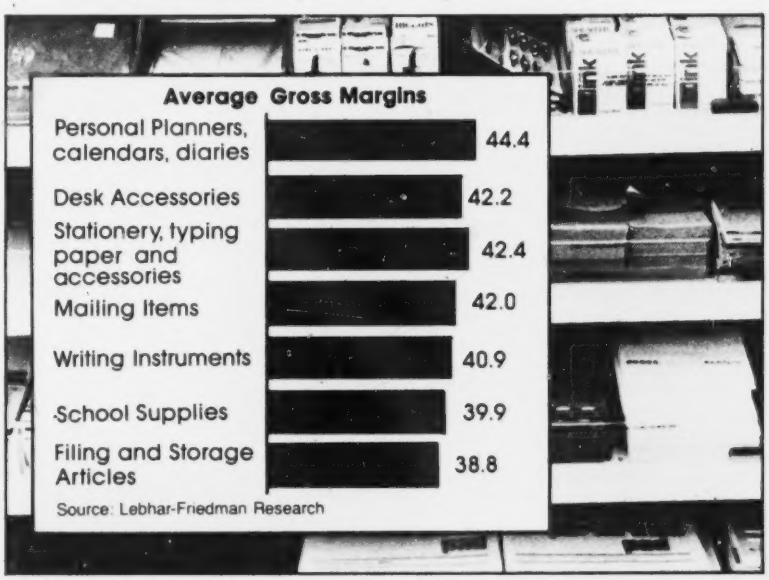
Among the specific product categories that generated the largest overall percentage of sales, the home office buyers frequently cited writing instruments, paper supplies and mailing items.

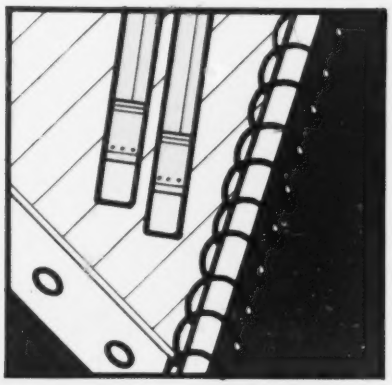
Not unlike greeting cards, home office supplies are generally considered impulse items by many drug, discount and general merchandise buyers. However, after several instances of a consumer purchasing a package of manila envelopes, legal pads or a box of index cards in his neighborhood mass merchandise outlet, a pattern of planned purchases is likely to develop, many retailers say.

The biggest advantage drug and general merchandise chains have over the traditional office supply store and stationery outlet is that the latter operates on a much higher markup. Consequently, many drug and general merchandise retailers believe they can exploit this market through competitive pricing.

Category	Average Number of Sku's
School Supplies	140.7
Writing Instruments	63.9
Stationery, typing paper and accessories	56.6
Desk Accessories	30.2
Mailing Items	22.1
Filing and Storage Articles	15.0

Source: Lebhar-Friedman Research





YEAR-ROUND DEMAND STIMULATES SALES

Line extensions have enabled retailers to target school supplies by age group and satisfy the growing needs of the student population.

It used to be that school supplies were regarded as seasonal items in some drug and general merchandise outlets. But in addition to their obvious appeal during the August and September back to school period, school supplies are now steady sellers throughout the year.

Indeed, only 2% of the drug, discount and general merchandise buyers responding to the Lebhar-Friedman Research survey said they carry school items on a seasonal basis.

School supplies actually are the leading stationery sellers in most mass merchandise outlets. When measured collectively school supplies generate 37% of the stationery department sales in discount stores and 41% in drug stores. Moreover, 78% of the buyers said that they expect school supply sales to increase in the coming year.

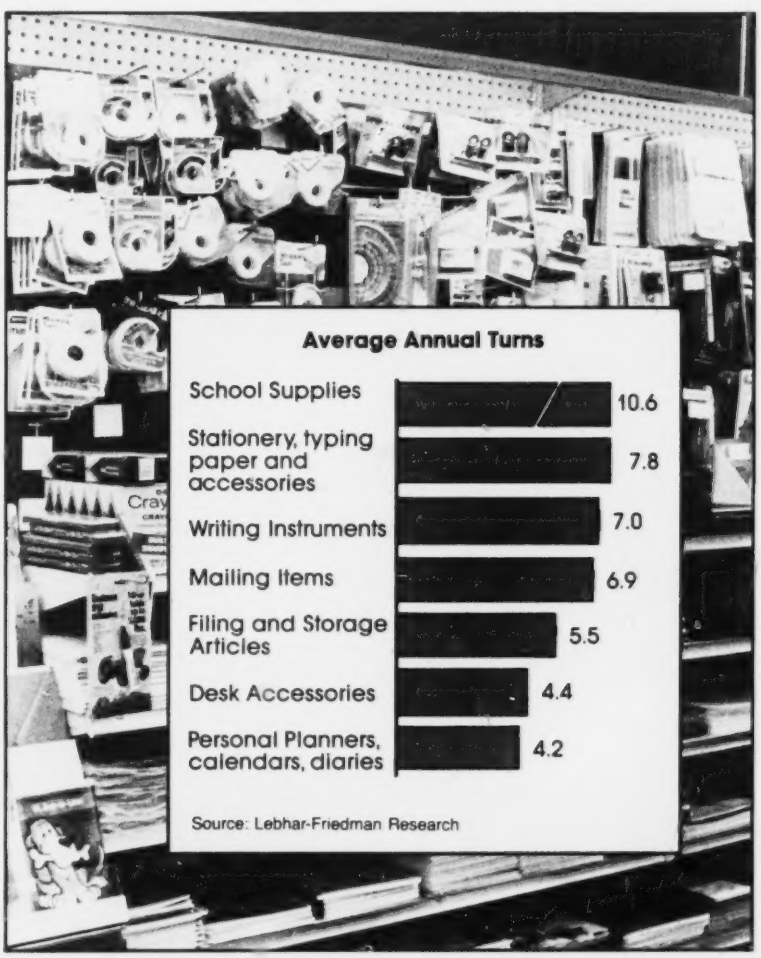
The projected increased demand for school supplies, a result of growing enrollments in day and night schools, has prompted many chains to increase their space allotments especially for ring binders, spiral notebooks, filler paper, pads and folders. In fact, according to the L-F survey, 42% of the buyers expect to provide more shelf space for school supplies during 1984.

While overall year-round sales of school supplies are up, the lucrative back to school period continues to be the driving force in the category. A new survey conducted jointly by *Chain Store Age General Merchandise Edition* and *Better Homes & Gardens* magazine revealed that the average consumer who purchased merchandise during the BTS period allocated approximately 12% of their total expenditures for stationery and school supplies. The only other categories where consumers spent more were apparel, shoes and text books.

In many cases buyers are reporting that they are extending some of their school supply lines. They cite the fact that students are interested in better quality merchandise.

Among the products that retailers are upgrading are portfolios, report covers and higher grades of writing tablets. The trend among students is toward more utilitarian and attractive school products that hold up under heavy use. Generally, these higher end products carry bigger profit margins.

Retailers are also targeting the younger age groups of students. Licensed character school supplies remain the strong sellers among the elementary school students. Even though these products can be risky retailers say the perennial favorites are consistent performers.



According to a recent survey, half of '84 sales appear to be already in the bag.

Replacement biz sweeps vacuum cleaner sales

Vacuums appear to be one of the least desirable housewares classifications. Margins average a low 23%, and an estimated 85% of sales are generated through promotional pricing. Nevertheless, most merchants stock a minimum of 10 sku's and report floor care departments contribute 5%-15% of their total housewares sales.

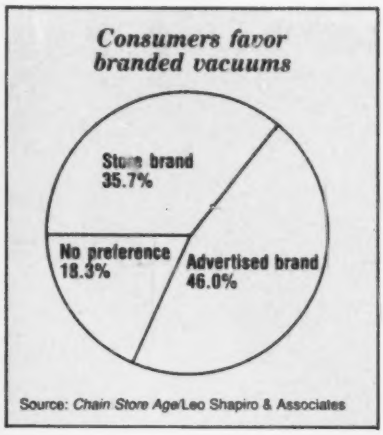
"It's a very competitive business, but the category is necessary to the mix," says Don Raplinger, housewares buyer for Lexington, Mo.-based Mattingly stores. Like other full-line retailers, Raplinger says customers think about buying a new vacuum cleaner only when their current model finally breaks down.

A recent *Chain Store Age*/Leo Shapiro & Associates consumer study reflects this trend. The statistics show that for every two consumers who purchased a vacuum in the past year, there is one shopper planning to buy one during the next 12 months. Moreover, the study indicates that vacuums are necessity purchases, unlikely to be delayed should the consumer curb family spending.

Quality products and good value are more important to replacement shoppers than to first-timers

Retailers report differences between the first-time purchaser and the replacement customer. First-timers are more price-conscious, says Marty Goodman, housewares dmm for Miami-based J. Byron. However, he adds, "Replacement customers definitely know what they're looking for."

Dallas-based Sanger-Harris assistant buyer for small electrics Belinda Baird agrees. Replacement shoppers, she says, look for quality products at a value and will often step up from their current models.


Consumers favor branded vacuums
Store brand 35.7%
No preference 18.3%
Advertised brand 46.0%
Source: Chain Store Age/Leo Shapiro & Associates

But regardless of their buying experience, the *Chain Store Age*/Shapiro study points out that they're savvy shoppers. Prospective buyers are very realistic in their price expectations: More than 46% expect a new vacuum to retail for $100-$299, while 25.3% anticipate a lower price tag and 18.3% expect higher.

Shoppers can find uprights as low as $39 or canisters that run as high as $500. But retailers say the bulk business is in uprights, ranging from $75 to $150, so they tailor their mixes accordingly. Most carry 60% uprights/40% canisters, with the heaviest model concentration in steps surrounding the $100 price point on promotions.

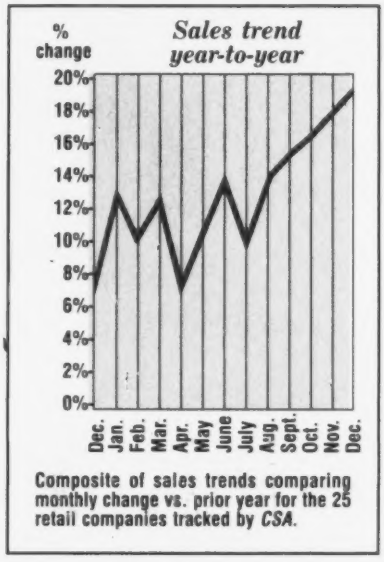
The survey also shows that vacuum cleaner customers are very brand-conscious, preferring nationally advertised names over store labels. Nearly 50% of those polled say they want a brand name model. Moreover, 24.5% of this group won't consider a store brand instead. Fewer than 20% of the respondents are undecided about which brand they'll buy.

Apparently, retailers have reacted to this trend. Most report carrying only Hoover and Eureka despite the numerous brands available. Even Montgomery Ward responded to customer preference in its 1983 Fall/Winter catalog: All 17 vacuums offered were made for Ward by Hoover or Eureka. □

Big spenders spur December sales

December was not merely a month in which retailers in the *Chain Store Age* sales survey logged the highest percentage increase of the year—19.4%. It was also a month where big-spending consumers unleashed their credit and cash fury on pricey merchandise. "Christmas shoppers," says a Montgomery Ward spokesman, "tended to buy higher-quality merchandise and made investment purchases like major appliances, TVs and jewelry."

That was good news for big-ticket



Composite of sales trends comparing monthly change vs. prior year for the 25 retail companies tracked by *CSA*.

GMers and high-end department stores. Chicago-based Ward, for one, recorded a 15.6% same-store increase (including a 30% jump in major appliances), and hometown rival Sears reported a 17.5% sales hike for its domestic operations. Meanwhile, in the department store group, the best increases were recorded by the upscale merchants. Los Angeles-based Carter Hawley Hale reported a 21.2% same-store increase for its department store group, and New York's R. H. Macy logged a 23.8% sales hike.

The consumer splurge on better-quality and higher-priced merchandise was reflected in the modest sales results reported by middle-level department store chains. While their results were good by any other standard, the upscalers took better advantage, through their higher-price mix, of a hefty jump in discretionary income (estimated at 11% for the fourth quarter). New York-based Mercantile, for example, recorded a 13.8% sales increase, while Allied Stores, another New York-based chain, reported a 13% same-store hike.

Despite the post-recession Christmas boom, other GMers didn't fare as well as expected. Best Products Co. Inc., a Richmond, Va., catalog showroom chain, posted a meager 1.8% December sales increase. Troy, Mich.-based K mart reported a weaker-than-expected 11.3% sales hike considering that the discounter was working against soft December '82 results (only an 0.8% gain in the last Christmas shopping period).

Many happy recovery returns

Major chains	% change	Dec. sales* 1983	Dec. sales* 1982	Stores 1983	Stores 1982	11-mo. sales 1983	11-mo. sales 1982	% change
Sears[1,6]	+34.6	3,748,083	2,784,483	887	831	22,674,153	18,917,229	+19.9
Penney	+11.6	2,130,000	1,908,000	2,031	2,070	10,370,000	9,795,000	+ 5.9
Ward[1]	+14.1	1,025,422	899,100	375	389	5,681,005	5,282,482	+ 7.5
Federated[5]	+12.4	1,563,100	1,390,500	546	510	8,086,400	7,130,400	+13.4
Dayton Hudson	+25.0	1,310,545	1,048,938	1,083	984	6,399,105	5,197,883	+23.1
May Dept. Stores	+16.8	779,100	666,800	1,559	1,394	3,990,000	3,450,000	+15.7
R. H. Macy	+23.8	748,100	604,100	93	92	3,636,600	3,049,400	+19.3
Allied Stores	+16.4	674,200	579,400	572	533	3,487,100	3,041,600	+14.6
Carter Hawley Hale	+22.4	710,900	580,900	1,087	1,027	3,399,400	2,865,400	+18.6
Associated Dry Goods	+21.2	712,300	587,600	331	253	3,492,000	2,930,000	+19.2
Mercantile	+13.8	274,591	241,383	86	83	1,520,754	1,342,057	+13.3
K mart	+11.3	3,066,457	2,754,875	2,167	2,123	17,536,029	15,767,743	+11.2
Woolworth	+ 7.2	939,729	876,588	N/A	N/A	5,124,854	4,827,128	+ 6.2
Wal-Mart	+41.2	710,000	503,000	642	552	4,336,000	3,140,000	+38.1
Household Merch.[2,3,3]	+ 2.3	400,159	391,017	3,654	3,769	2,670,609	2,749,300	− 2.9
T.G. & Y.	+ 0.3	332,456	331,390	811	901	1,882,801	1,970,006	− 4.4
Zayre[4]	+33.3	471,540	353,751	750	627	2,499,025	2,043,059	+22.0
Bradlees	+38.3	250,200	180,900	127	106	1,123,000	826,000	+36.0
Murphy	+14.7	152,294	132,829	406	423	822,352	777,046	+ 5.8
Rose's	+26.5	138,522	109,545	245	239	790,058	631,061	+25.2
Heck's	+12.1	61,900	55,200	122	119	435,700	399,300	+ 9.1
Jamesway	+28.4	76,706	59,724	78	68	399,209	318,472	+25.4
Melville	+30.3	653,378	501,475	5,747	5,482	3,906,369	3,218,901	+21.4
Tandy	+10.6	414,697	375,049	N/A	N/A	2,433,736	2,104,073	+15.7
Edison Bros.	+18.0	143,761	121,844	2,166	2,129	1,021,678	915,900	+11.6
The Gap	+12.1	98,400	87,800	569	548	451,000	420,600	+ 7.2
Totals & Averages	**+19.4**	**21,254,084**	**17,794,801**	—	—	**116,286,136**	**101,140,034**	**+15.0**

*000 omitted. N.C. = no change. N/A = not available.
[1]Store number for full-line outlets only. [2]Includes 2,802 franchise stores (vs. 2,824 a year ago). [3]Includes T.G. & Y. sales. [4]Includes 275 Zayre stores (vs. 264 a year ago), 357 Hit or Miss stores (vs. 277) and 118 T. J. Maxx stores (vs. 86). [5]Excludes supermarket sales. [6]Includes results from Simpson-Sears.

Wickes profit picture improves

Wickes may still be operating under Chapter 11 of the bankruptcy-law proceedings, but the Santa Monica-based firm's third-quarter '83 results reflect an improved profit picture.

The chain reported earnings of $19.4 million for the quarter compared with a $75.8 million loss during the same period in 1982. Sales for the quarter were up 10.7% to $751.8 million.

For the nine months, Wickes' earnings were $10.2 million compared with a $126 million loss during the 1982 period. Sales rose 9% to $2.14 billion.

Wickes, whose holdings include lumber products and retailing firms, filed for bankruptcy under the Chapter 11 regulations in April 1982.

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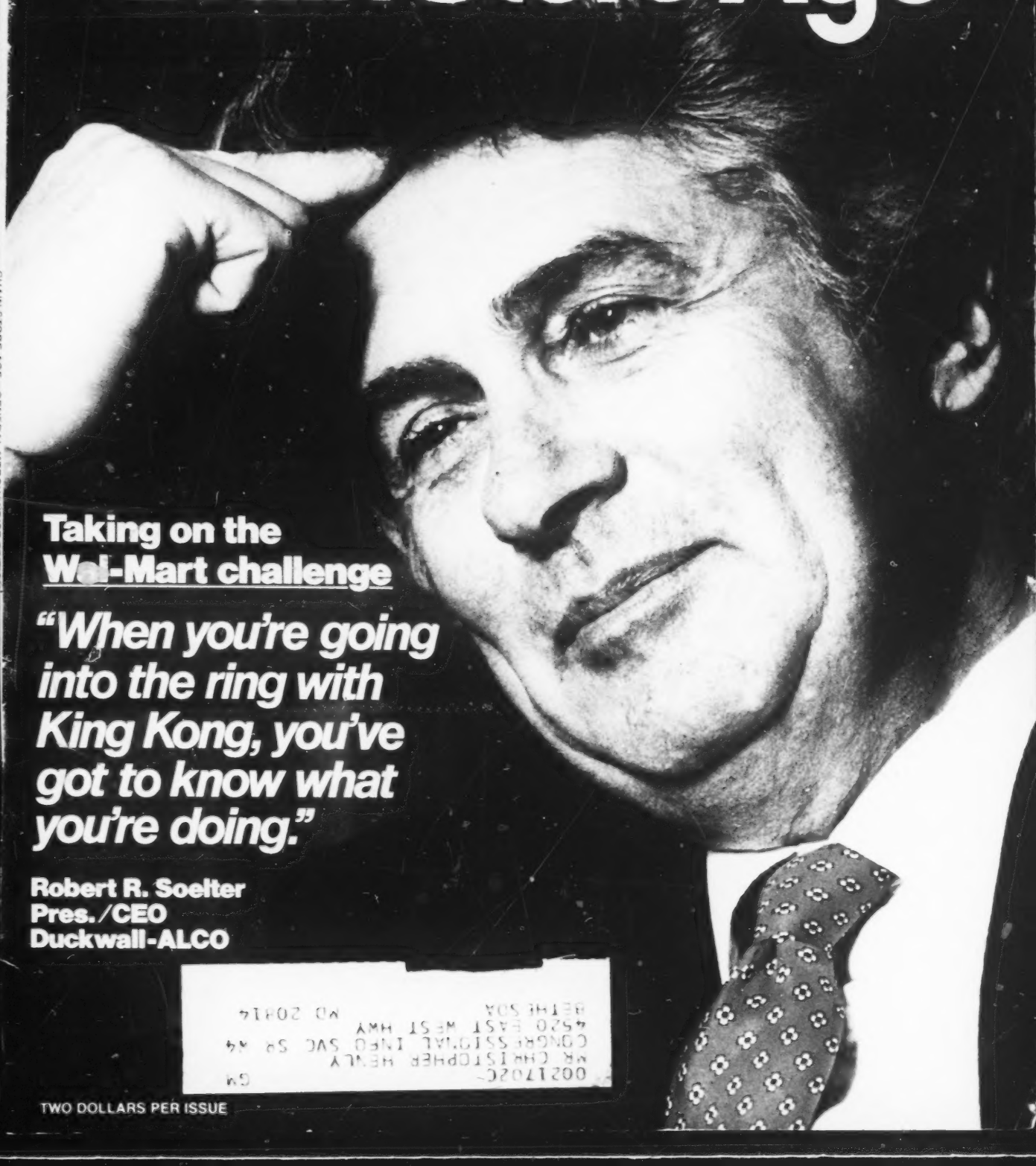
Battle of the Big 3 prototypes
Consumer electronics: fun and games

Chain Store Age



Taking on the
Wal-Mart challenge

"When you're going into the ring with King Kong, you've got to know what you're doing."

Robert R. Soelter
Pres./CEO
Duckwall-ALCO

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TWO DOLLARS PER ISSUE

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Duckwall-ALCO on the up escalator

	1982 sales (000 omitted)	% sales change	1982 net income change	% net income change	Sales per net square foot	Earnings per net square foot	% change '78-'82 compound sales	% change '78-'82 compound earnings
Duckwall-ALCO	$206,141[1]	+ 9.7%	4,313	+55.4%	$84.81[1]	$1.69	+12.7[1]	+ 8.9%
Majic Mart	111,616	−10.8	472	+19.2	72.48	0.31	+ 2.4	−25.1
Duckwall-ALCO ('83)[2]	313,400[1]	+52.8	7,450	+72.7	90.00[1]	1.94	+18.5[1]	+14.6
Duckwall-ALCO ('84)[2]	388,900[1]	+24.1	10,750	+44.3	95.00[1]	2.71	+24.5[1]	+34.5

[1]Discount stores only.
[2]1983 and 1984 figures are estimates; 1983 and 1984 compound growth estimated on a five-year basis ('79-'83 and '80-'84).
Source: Kidder, Peabody & Co./*Chain Store Age research*

Merchandise mix flexibility, however, may be the key to competing with the larger Wal-Marts. "I think that's where the ALCO manager has an advantage over a Wal-Mart manager," says Robert Green, a retail analyst with Kidder Peabody & Co. "The ALCO manager is left with a great deal of both price and merchandise discretion. You don't go after Wal-Mart on price. They're [Duckwall management] the very first to admit that you don't win getting into a price war with Wal-Mart, because Wal-Mart will do anything in its power to be the lowest price in any market, bar none. So all you end up doing is shooting off your own toe when you get into one of those things."

One former Majic Mart manager, now with ALCO, has already noticed the change since the May takeover. Larry Darwin of ALCO's Corinth, Miss., store says his new bosses "are a lot more aggressive" than their predecessors. The store's shoppers also see the difference. One long-time Majic Mart shopper now calls it a "toss-up" between

Big-city stats in small-town flats

Duckwall-ALCO's success story is shared by other small-town retailers, from Wal-Mart to Rocky Hill, Conn.-based Ames Department Stores. They're all part of a long-term growth trend in rural America. In recent years, these small-town discounters have grown faster—and are more profitable—than the average general merchandise chains. They may differ in size and strategy, but they all profit from population changes and the lack of competition in many of these smaller markets.

Retail analyst Fred Wintzer Jr. studied this retailing phenomenon in his Lehman Brothers Kuhn Loeb report on rural retailing, in which he traced its initial surge in the early 1970's. "Between 1972 and 1977," he wrote, "retail expenditures in urban areas increased by only 7.4% [after inflation]. In contrast, spending increased by 12% in nonmetropolitan counties close to cities and by nearly 14% in rural areas."

Shifting demographic trends keyed the surge. According to Wintzer, in the 1970's population in nonmetropolitan areas increased more rapidly than in urban areas.

But there's also less competition from off-pricers and specialty retailers in smaller markets. As a result, the small-town chains have beefed up their bottom lines. "They don't compete with off-pricers because they [off-pricers] need a volume that little towns can't provide," says Gary Wirt, retail analyst at The Chicago Corporation.

The small-town retailers' markets are also larger. Shoppers are willing to travel longer distances, which expands the store's population base. "A town of 15,000 may have a market area of 50 miles," says Wirt, "so the population may really be 40,000."

On the other hand, rural America is for the ALCOs and Wal-Marts, not K mart, the nation's largest discounter has decided.

"You probably won't see too many more of our Group 9 [40,000-sq.-ft.] stores built," says Norman G. Milley, K mart's exec vp/merchandising and subsidiaries. The reason: K mart's expense structure requires a higher per-store volume than the Group 9'ers can generate. They average a *CSA*-estimated $5 million.

K mart has more than 300 small units and is developing a program to widen their assortments and raise markups. The company will concentrate its 35-40 new stores this year, and the expected 30 a year thereafter, in the 72,000-sq.-ft. or 55,000-sq.-ft. size, says Milley.

How rural retailers stack up

	5-year ('78-'82) annual growth		3-year average ('80-'82)	
Company	Sales	Profit	Return on assets	Return on investment
Ames Dept. Stores	20.3%	18.1%	7.3%	19.4%
Dollar General Corp.	17.3	10.7	7.5	12.5
Duckwall-ALCO	10.7	8.9	4.4	13.0
Family Dollar Stores	18.7	18.1	12.8	20.6
Wal-Mart	37.6	40.6	8.8	2[illegible]
Median performance of all publicly held retailers	12.6	9.0	5.6	12.1

Source: Lehman Brothers Kuhn Loeb research/*Chain Store Age research*